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Key Points of Report

An Audit Report on the Department of Housing and Community Affairs

December 2000

Overall Conclusion

The Department of Housing and Community Affairs (Department) has significant weaknesses in contract management for two of the three programs included in our audit: the HOME Investment Partnership Program (HOME) and the Housing Trust Fund Program. These weaknesses hinder the Department's ability to ensure funds are awarded objectively and distributed in a timely manner to meet housing needs.

We are reporting an audit scope limitation on the contract award process for HOME. Specifically, we could not assess the objectivity of the award process because unfunded applications for fiscal years 1995 to 1999 were unavailable.

Additionally, our audit of the Low Income Housing Tax Credit program indicated the Department does not have documentation to support that application fees are allocated only to cover processing costs as required by state law.

Furthermore, the Department has not developed a process to ensure that housing services are delivered to the areas of greatest need or priority as designated by state statutes and performance targets.

Key Facts and Findings

- HOME's contract database cannot provide current information on the status of \$12 million in unexpended balances for contracts that expired between 1997 and 2000. As a result, there is a risk that available funds are not re-obligated in a timely manner to fund other projects that provide housing for citizens.
- The Department does not adequately consider alternative federal funding available when it conducts a needs assessment for housing in Texas. Between 1995 and 1999, 12 localities received \$35.3 million (25 percent of the total five-year funding) in services funded by the Department's HOME program. For the same five-year period, these localities were awarded \$164.9 million in HOME funds directly from the U.S. Department of Housing and Urban Development. Without including this data in the needs assessment, the Department cannot identify the areas of greatest need in the state or address gaps in funding for specific regions.

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This audit was conducted in accordance with Government Code, Section 321.133.

Executive Summary

Overall Conclusion

The Department has significant weaknesses in contract management for two of the three programs included in our audit: the HOME Investment Partnership Program (HOME) and the Housing Trust Fund program. These weaknesses hinder the Department's ability to ensure funds are awarded objectively and distributed in a timely manner to meet housing needs. HOME's contract database cannot provide accurate information on the status of \$12 million in unexpended balances for contracts that expired between 1997 and 2000. As a result, there is a risk that available funds are not re-obligated in a timely manner to fund other projects that provide housing for citizens.

Additionally, we are reporting an audit scope limitation on the contract award process for HOME. Specifically, we could not assess the objectivity of the award process because unfunded applications for fiscal years 1995 to 1999 were unavailable.

Our audit of the Low Income Housing Tax Credit program indicated that the program does not have adequate support to ensure that application fees are used in compliance with state law.

Furthermore, the Department has not developed a process to ensure that housing services are delivered to the areas of greatest need or priority as designated by state statutes and performance targets.

HOME Has Contract Management Weaknesses That Could Impair the State's Ability to Meet Identified Housing Needs in a Timely Manner

HOME's information system, Genesis, currently reflects approximately \$12 million in unexpended funds for contracts that expired between 1997 and May 2000. While Department management indicates that these balances have been expended or re-obligated, there is no reconciliation or support available

to substantiate the status of the contract balances. Therefore, we were unable to perform audit work to verify the actual unexpended balance.

The contract award process does not place sufficient priority on providing housing services to meet the needs identified by the Department and state statutes. For example state statutes establish a high priority for serving nonparticipating rural areas that do not receive housing funds directly from the federal government. However, the Department's application scoring process assigns a maximum of 20 application points out of a possible 300 for serving rural areas.

The Housing Trust Fund Did Not Comply With Certain Contract Award Procedures and Did Not Establish Processes to Adequately Monitor Contractor Performance

We identified five contract awards totaling \$1.5 million that did not receive preliminary site visits or satisfy underwriting conditions as indicated by Department policy. The contract deliverables were not completed, and the funds were eventually de-obligated. Additionally, the Department did not effectively monitor the performance statements of a \$679,000 contract, which resulted in the contractor spending approximately \$100,000 in funds after the contract expired.

Documentation that would allow us to fully assess the objectivity of the award process was not included in the application files reviewed. None of the applications tested contained documentation to support the program's first level review, which is the review that disqualifies an application from being scored. Therefore, we cannot provide assurance that all qualified applications were scored.

Executive Summary, continued

The Low Income Housing Tax Credit Program Has Made Improvements on Prior Audit Issues, But Oversight of Program Costs and the Timeliness of Management Action Need to Be Strengthened

The Department has addressed a prior audit issue related to noncompliance with underwriting standards. We reviewed project awards from fiscal year 1996 through fiscal year 1999 and found no instances in which the underwriting department denied an application that was subsequently awarded.

However, administration of the Low Income Housing Tax Credit program has certain weaknesses related to management oversight and accounting for program costs. The Low Income Housing Tax Credit program does not have adequate support to ensure that application fees are used in compliance with state law. The program collected \$1.4 million in application and commitment fees in fiscal year 1999.

Management did not take prompt action in the case of an ineligible Department employee benefitting from the Low Income Housing Tax Credit program. While the Department investigated and verified that an ineligible employee was residing in a Low Income Housing Tax Credit program complex, management did not issue a letter to the employee about the circumstance for seven months after verification.

The Statewide Needs Assessment Process for Affordable Housing Does Not Include Sufficient Consideration of the Supply of Housing or Funding from Other Sources Provided to Texas Cities

The Department's current process used to determine the need for affordable housing in

the State does not adequately consider key factors that would help prioritize its allocation of funding and services. For example, the needs assessment process does not fully assess the impact of the supply of housing provided over the years by the Department's programs. Additionally, in fiscal year 1999, the U.S. Department of Housing and Urban Development (HUD) provided \$62.6 million in housing assistance directly to local entities or participating jurisdictions in Texas. This funding was in addition to approximately \$37 million the Department awarded to both participating and nonparticipating jurisdictions. However, the Department does not consider direct HUD funding when conducting its needs analysis.

Summary of Management's Response

Management generally concurs with the issues and recommendations contained in this report. For additional responses not included in the body of this report refer to Appendix 8.

Summary of Objective and Scope

The objective of the audit was to determine if the Department of Housing and Community Affairs has developed a process to deliver housing services to the neediest areas of the state, objectively awards and monitors its contracts, and maximizes its use of housing funds.

We are reporting an audit scope limitation for HOME because unfunded applications from 1995 through 1999 were not available for audit. An audit scope limitation is a circumstance beyond the auditor's control that prevents the auditor from reaching conclusions about a function of the organization being audited.

Executive Summary, concluded

The scope of this audit included all applications submitted to the Department and all contracts awarded by the Department for the Low Income Housing Tax Credit, HOME, and Housing Trust Fund programs

from fiscal years 1995 through 1999. Each program's financial information, needs assessment procedures and related data, and performance measure information for fiscal years 1995 through 1999 were also reviewed.

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Overall Conclusion

The Department of Housing and Community Affairs (Department) has significant weaknesses in contract administration for two of the three programs included in our review: the HOME Investment Partnership Program (HOME) and the Housing Trust Fund Program. These weaknesses affect the Department's ability to ensure funds are awarded objectively and distributed in a timely manner to meet housing needs.

Our audit of the Low Income Housing Tax Credit program indicated that the program does not have adequate support to ensure application fees are spent in compliance with state law.

Additionally, the Department has not developed a process to ensure that housing services are delivered to the areas of greatest need or priority as designated by state statutes and performance targets.

Section 1:

HOME Has Contract Management Weaknesses That Could Impair the State's Ability to Meet Identified Housing Needs in a Timely Manner

The Home Investment Partnership Program

The HOME program awards funds to various non-profit, for-profit, and public housing agencies around the state to provide program activities to low income individuals. The HOME program assists in the construction and rehabilitation of low income rental units, provides funds for the rehabilitation of single family homes, and provides rent and down payment assistance to needy Texans. In fiscal year 1999, the HOME program was funded at \$37 million. See Appendix 3 for maps detailing applications and awards for 1995-1999.

HOME's contract database cannot provide the current status of \$12 million in unexpended balances for contracts that expired between 1997 and May 2000. As a result, there is a risk that available funds are not re-obligated in a timely manner to fund other projects that provide housing for citizens. Additionally, the contract award process does not place sufficient priority on providing housing services that meet the needs identified by state law. Furthermore, the objectivity of the contract award process cannot be validated for fiscal years 1995 through 1999 because the unfunded applications were unavailable. Consequently, we are reporting an audit scope limitation on HOME's contract award process. HOME was funded at \$37 million in fiscal year 1999 and provides a variety of housing services that include down payment and rental assistance.

Section 1-A:

Inadequate Monitoring of Program Data Increases the Risk That Funds Will Not Be Distributed in a Timely Manner

HOME's information system, Genesis, currently reflects approximately \$12 million in unexpended funds for contracts that expired between 1997 and May 2000. While Department management indicates that these balances have been expended or re-obligated, there is no reconciliation or support available to substantiate the status of the contract balances. Therefore, we were unable to perform audit work to verify the actual unexpended balance.

Table 1

Unexpended Balances From HOME's Contract Database (Unaudited Data)			
Year Contract Expired	Number of Contracts	Total Value of Contracts	Unexpended Balance
1997	8	\$ 1,701,202	\$ 1,250,866
1998	11	\$ 3,362,575	\$ 2,798,068
1999	14	\$ 5,581,384	\$ 4,454,203
2000 - (as of May 2000)	12	\$ 4,233,731	\$ 3,476,456

Source: Genesis database for projects in effect between 1995 and 1999

The Department is not in jeopardy of lapsing these funds this year because of the current U.S. Department of Housing and Urban Development (HUD) policy statement (CPD 00-02) that allows an extension of expenditure deadlines. However, without accurate contract data the Department cannot

ensure that funds are redistributed in a timely manner to provide housing services to Texas citizens. Although management asserts that it is currently conducting a reconciliation of these accounts, the data was not available during our audit.

Recommendation:

The Department should:

- Complete a reconciliation of the information in the Genesis system to determine the actual amount of the unexpended balances.
- Enhance the information system to provide the capability of reporting up-to-date financial and schedule information. This system should ideally interface with the Department accounting system for real-time access to contract data.
- Design reports, including ratio analyses, to monitor expenditure rates, schedules for performance, and trends so that management is able to anticipate potential problems. Use the information from this system to evaluate and report performance of all contractors awarded HOME funds.

Management's Response:

- *Management agrees with the recommendation to perform a complete reconciliation of the information in the Genesis system. Genesis cannot provide the level of detail to properly administer a program of this size. Alternatively, HOME staff manually tracked each award through an Excel spreadsheet that was maintained on a regular basis by the former HOME Planning and Operations Supervisor. The spreadsheet was used to reallocate funds from deobligated money. HOME staff is in the process of reconciling this spreadsheet to Genesis in order to give management reassurance that all the data is correct. The reconciliation should be completed by January 1, 2001 and is the responsibility of the HOME Manager.*

- *Management agrees with the recommendation that its information system needs to provide the capability of reporting up-to-date financial and schedule information. Genesis needs to be replaced or modified with an information system that has these capabilities. The Information Services Division is taking this need into account in developing a central database for the Department. However, it should be noted, during the scope of the audit, all of the financial information in the Genesis system was provided directly from the Department's accounting system, CSAS, through a nightly download. Genesis will continue to be used until implementation of the central database HOME module.*

The completion of the Department's central database is subject to approval to exceed the FY 2001 capital budget by the Legislative Budget Board and Governor's Office of Budget and Planning. Anticipated completion date under these circumstances would be March 2002, or 15 months after approval. Should these approvals be unsuccessful, the Department will request authorization for the next biennium, in which case, if approved, the estimated completion date is December 2002. This is the responsibility of the IS Director and, as it relates to the HOME program, the HOME Manager.

- *Management agrees with the recommendation to design reports to monitor expenditure rates, schedules for performance, and trends so it will be able to anticipate potential problems. Management has utilized reports from Genesis regarding **expenditure rates** in the past and, beginning with the 2000 funding cycle, has been developing a better method of tracking the expenditure rates of the new contracts with the goal to enhance the reports for monitoring and evaluating contract performance. Staff is also in the process of developing a manual tracking method to evaluate contract **performance statements**. These systems will be used to monitor expenditure rates, schedules for performance, and trends until such time that the previously mentioned central database is implemented. The anticipated target date is February 28, 2001 and is the responsibility of the HOME Manager.*

Section 1-B:

Housing Needs Identified by the Department, State Goals, and Statutes Are Not Reflected in the Award Process

The Department's process for allocating housing funds does not adequately address needs designated by state goals or statutes. Scoring criteria used to rank applications do not always target identified needs. The Department's enabling statute (Government Code, Section 2306.111) sets forth "the highest priority" for serving nonparticipating small cities and rural areas that do not qualify to receive HOME funds from HUD. However, the process used to score and evaluate applications does not assign any points for applications that serve nonparticipating jurisdictions. In terms of placing priority on rural applications, a maximum of 20 application points out of a possible 300 is assigned for serving rural areas.

The Department also has performance goals for serving low, very low, and extremely low income applicants. In some cases, the scoring criteria do not give the highest

points based on targeted income. For example, HOME's application for rental housing development assigns only 15 of 300 points for need identified by census poverty data.

Recommendation:

The Department should:

- Establish HOME allocation targets that reflect housing needs identified by the Department. Evaluate strategies for increasing outreach to generate more applications related to assessed needs.
- Continue to re-evaluate current scoring criteria and develop a sound, objective methodology for scoring applications for the next funding cycle.
- Ensure that scoring point weights adequately reflect legislative targets, such as nonparticipating rural areas. Funding efforts should be directed at the nonparticipating jurisdictions of the state.

Management's Response:

- *Management agrees with the recommendation to establish HOME allocation targets that reflect housing needs identified by the Department and evaluating strategies for increasing applications that satisfy these needs. Needs will be based, in part, on a new regional planning formula as required by §2306.111(d)-(f) Government Code, which will be allocating funds based on the needs of each region in Texas. HOME is subject to this new formula starting with the 2001 funding cycle. The Department can better market our programs to cities, counties and other organizations that could assist the Department in satisfying targeted needs and will explore strategies to increase applications by these entities.*
- *Management agrees with the recommendation to re-evaluate current scoring criteria as it does on an annual basis, and will enhance its methodology for scoring applications for the next funding cycle. Management has already taken steps to revise the scoring criteria for the 2001 funding cycle which will reduce subjective criteria to a minimum and incorporate the objective requirements of the program such as incomes served, emphasis on rural markets, match requirements, etc. The new score models will be completed by January 31, 2001 and will be utilized for the 2001 funding cycle. The HOME Manager is responsible for this task.*
- *Management agrees with the recommendation that scoring point weights adequately reflect Legislative targets, such as nonparticipating rural areas and funding efforts be directed at the nonparticipating jurisdictions (non-PJ's) of the state. Starting with the 2000 HOME funding cycle, priority was given to non-PJ's and out of 79 awards, only 10 served a PJ area. As dictated in the 2001 Consolidated Plan, all awards will be limited to service areas outside of a participating jurisdiction with the exception of awards*

where special needs individuals are served or the activity is CHDO eligible. In these two situations, priority will still be given to service areas that fall outside of a PJ. The new score models will be completed by January 31, 2001 and will be utilized for the 2001 funding cycle. The HOME Manager is responsible for this task.

Section 1-C:

The Objectivity of the Contract Award Process for Fiscal Years 1995 Through 1999 Could Not Be Verified

The objectivity of the contract award process could not be audited for fiscal years 1995 through 1999 because unfunded (unapproved) applications were not available for review. Without review of the unfunded applications, there is no assurance that the Department followed policies designed to select the most qualified applicant. As a result, we are reporting an audit scope limitation on the award process for HOME. A scope limitation is a circumstance beyond the auditor's control that prevents the auditor from reaching conclusions about a function of the organization being audited. Auditors should report significant constraints imposed on the audit approach by data limitations or scope impairments (*Government Auditing Standards*, 1994 revision, Section 7.14).

Although we have not identified any violation of state law, the Department did not comply with its internal policies for disposing of records. The Department's records retention schedule allows the disposal of unfunded applications when the applications no longer have "administrative value" to the program. However, the Department's records management policies and procedures state that "all official records of the Department must be inspected by the Records Management section prior to disposal. All data pertaining to destroyed records should be entered into a destruction log that is maintained in the Records Management section for 20 years." In our review of the destruction log, we found no entries for HOME. However, other programs managed by the Department had entries in the log, including Low Income Housing Tax Credit and Housing Trust Fund.

Recommendation:

HOME staff should follow existing Department policy in disposing of all program records.

Management's Response:

Management agrees that the unfunded applications should have been reviewed by the Records Manager and entered into the destruction log in compliance with the Department's internal policies. The former HOME Planning and Operations Supervisor destroyed unfunded application files each year, allowable by State law, prior to the start of a new funding application cycle to have sufficient storage space for the delivery of applications during a cycle.

The HOME program has modified its internal retention schedule policy to align with the Department's records retention schedule and it now includes unfunded applications as required documents that must go through Records Management for storage and/or destruction, which includes the recommended two-year holding period. This policy has been put in place and is the responsibility of the HOME Manager.

Section 1-D:

HOME Does Not Assess Whether Housing Services Defined in Contracts Were Actually Provided

In 31 percent (11 of 36) of contracts tested, the number of units stated in the contract was less than the number actually received. The other 69 percent of the contracts tested either met or exceeded contract requirements or documentation was not available for us to assess contractor performance. Without tracking contractor deliverables, an accurate measurement of how much of the need has actually been met will not be available.

The Department measures and reports the success of HOME based on the number of housing units or individuals projected to receive services rather than the actual number served. Actual results varied, as our testing of contracts for fiscal years 1995 to 1999 revealed. We found that HOME did not always serve the number of residents, homebuyers, or tenants identified in the performance statement section of the contract. For example:

- One contract required down payment assistance for 1,000 homes for a contract amount of \$3,120,000. The contractor completed 740 homes with a remaining balance of \$7,429.
- One contract required the renovation of 12 existing homes for a contract amount of \$208,000. The contractor actually renovated 7 homes, with a remaining balance of \$1,000.

The Department needs accurate information on the performance of contractors to evaluate to what extent housing needs have been addressed.

Recommendation:

The Department should:

- Compile data to monitor the actual services resulting from contracts.
- Require contractors to report progress in a manner consistent with the Statement of Work so that the Department can more easily determine if contractors are successfully providing housing services.
- Use reporting information for evaluating contractor performance and when considering future applicants.

Management's Response:

Management agrees with the recommendation to compile data based on actual contract performance so that HOME staff can better monitor contract activity and trends against projected contract performance. Staff will develop a system to centrally collect the Board and Executive Director approved reductions to contract deliverables, which is required for continued contract funding. Since Genesis does track performance of contracts for most of the contract requirements, as dictated by the Performance Statement, through the process of project set-ups and draws, it will be the responsibility of HOME staff to report the trends and activity for each contract to Management. Beginning with the 2000 funding cycle awards, Management will utilize a manual system for analyzing the activity of awards based on the feedback provided by the Regional Coordinators who work with the Administrators each day. This system will be used to monitor expenditure rates, schedules for performance, and trends so that management will have a better tool to evaluate contract performance and for consideration when awarding future funds. This manual system will be utilized until such time that the previously mentioned central database is implemented. The anticipated target date for the manual tracking report is February 28, 2001 and is the responsibility of the HOME Manager.

Section 2:

The Housing Trust Fund Did Not Comply With Certain Contract Award Procedures and Did Not Establish Processes to Adequately Monitor Contractor Performance

Housing Trust Fund

The Housing Trust Fund program allocates funds to non-profit organizations, units of local government, public housing authorities, community housing development organizations, and income eligible individuals and families. Eligible activities include acquisition, rehabilitation, and new construction of low income housing.

In the 2000-2001 biennium, the Legislature appropriated approximately \$12 million to the Housing Trust Fund. Of this amount, \$2.8 was set aside for the Office of Colonia Initiative and 2.4 million was set aside for program capacity and pre-development. See Appendix 4 for maps detailing applications and awards for 1995-1999.

Noncompliance with contract procedures could impair the objectivity of the award process and increase the risk that awarded projects will not be successfully completed. We identified five contracts totaling \$1.5 million that did not satisfy underwriting conditions or receive preliminary site visits as indicated by Department policy. Additionally, none of the 30 applications tested contained documentation of the program's first level review, which is the review that disqualifies an application from being scored. Therefore, we cannot provide assurance that all qualified applications were scored. Furthermore, the Department did not effectively monitor the performance statements of a \$679,000 contract, which resulted in the contractor spending approximately \$100,000 after the contract expired. The Housing Trust Fund awarded approximately \$4.2 million in fiscal year 1999.

Noncompliance With Contract Award Procedures Potentially Impairs the Objectivity of the Awards or the Viability of the Project

The Department did not consistently follow its contract award procedures. The audit reviewed 30 Housing Trust Fund applications for fiscal years 1995 to 1999 and the following exceptions were noted:

- Five of the ten applications that were recommended for award did not have evidence of satisfying underwriting requirements and/or receiving preliminary site visits as required by Department policy. These five contracts, totaling \$1.5 million, were de-obligated one to two years after the award and did not ultimately use the awarded funds. Although the lack of these procedures may not be the only reason for the de-obligation of these funds, it may be a contributing factor. Two of the contracts were funded in 1995 and three in 1999.

Underwriting Review and Preliminary Site Visits

The underwriting review assesses the financial feasibility of the project and the development experience and management capabilities of the applicant.

Preliminary site visits are intended to evaluate the economic and commercial feasibility of the proposed project. During the visits, staff personnel review existing conditions that may affect construction, the completed building and site, or the intended use of the facilities by future residents.
- Two of the applications (7 percent of the sample) did not include a scoring document to reflect the specific points assigned to that project for meeting program criteria. Therefore, we could not assess compliance with the Department's award criteria in these instances. One was a fiscal year 1996 application and one was for fiscal year 1999.
- Thirty applications did not contain evidence of the first level review required by Department rules to screen applications before they are submitted for scoring (Texas Administrative Code, Title 10, Section 51.10a.1). Without documentation of the first level reviews, there is no assurance that all qualified applications will move to the next process of evaluation in which the projects are scored based on program criteria. In the first level review, applications are reviewed to determine if they:
 - Are consistent with the Housing Trust Fund rules
 - Show ability in areas of financing, acquiring, rehabilitating and developing or managing an affordable housing development
 - Address and identify housing need

Recommendation:

The Department should:

- Perform preliminary site visits when an application meets the minimum score, as required by Housing Trust Fund procedures. Site inspection procedures should include adequate documentation of the inspection results, recommendations, and follow-up to ensure adequate corrective action.
- Ensure that conditions noted by conditional underwriting recommendations are met within 30 days of award if there are no contingencies, such as a loan closing. If a loan closing is involved, ensure that the conditions are met prior to the closing.
- Establish a process for documenting supervisory review to ensure that application evaluations and scoring procedures are properly conducted to meet requirements.
- Define the first level review criteria used to evaluate applications so that it is detailed and measurable. The Housing Trust Fund should also develop formal and detailed standard operating procedures that describe the procedures to be performed, as well as develop a method for documenting the review.

Management's Response:

- *Management agrees with the value of performing site visits; however, believes that it is inefficient and unnecessary to perform site visits of every application that may meet the minimum score. Alternatively, Management will establish a formal policy which requires that those applications receiving a favorable underwriting recommendation, and ranking high enough in the scoring order to be considered for funding, be inspected prior to being recommended for funding. This is currently the process being used and an inspection form, utilized beginning in the FY2000 cycle, has been developed to document the inspection visits. The process for tracking and maintaining this documentation will be better defined in the program standard operating procedures. The Construction Specialist is responsible for formalizing this process and estimates a completion date by February 15th, 2001.*
- *Management agrees with the importance of having procedures in place to ensure that underwriting conditions are met prior to closing the loan. In many cases the underwriting recommendations cannot be met within 30 days due to the applicant's inability to provide all necessary information required prior to the closing of their loan award as the auditors have recognized as a contingency factor for the 30 day time frame. The primary concern is that funds are not disbursed prior to applicants satisfying all underwriting conditions. The program currently has a process in place by which the Contract Specialist reviews and tracks compliance with the underwriting conditions and requirements prior to funding. This process is completed with the direct assistance of the Underwriting Division. Due to apparent inadequacies of the process, the program Manager and Contract Specialist*

will enhance the standard operating procedures to sufficiently reflect this process by February 15, 2001.

- *Management agrees to establish a process to document supervisory review of application evaluation and scoring procedures. Improved controls were established for the FY2000 funding cycle. The Manager and Assistant Planner will review these controls, enhance them where necessary, and formalize them in the program standard operation procedures by February 15, 2001.*
- *Management agrees and has clearly defined the first level criteria used to evaluate applications and has developed specific requirements for meeting the criteria. The Assistant Planner will incorporate the clarified criteria and the methodology for evaluating the criteria in the program's standard operating procedures by February 15, 2001.*

State Auditor's Follow-Up Comment:

The Department's internal procedures required Housing Trust Fund staff to perform these site visits. This is the criterion we used to evaluate compliance with policies and procedures. It is management's decision to alter its procedures. However, the State Auditor's staff conducted the audit based on the procedures in place during the period audited. When management was informed of the audit issue, management indicated that the procedures for site visits should be changed.

Section 2-B:

Contract Monitoring Procedures Should Be Strengthened to Ensure That Projects Comply With Department Performance Criteria

The Department should improve oversight of contractors to ensure that services are implemented according to Department requirements. Noted exceptions include:

- One contractor expended \$97,617 after the expiration of the contract. At the time of the audit, there was no contract amendment to extend the dates of performance. Additionally, the contractor did not fulfill contract requirements to use 50 percent of its funding to serve extremely low income clients. The contractor actually used 14 percent of its funding for this purpose.
- There are no procedures to monitor compliance with state restrictions on involuntary displacement. State law prohibits funding of projects that have the effect of permanently and involuntarily displacing low income, very low income, and extremely low income households (Government Code, Section 2306.203 [4]). Currently, the Department requires applicants to self-report their compliance.
- The Housing Trust Fund program has not established procedures to determine if contractors have been debarred from federal programs. Program Guidelines, Section 12, state that no contractor participating in the program

can be listed as excluded from federal procurement or non-procurement programs.

Recommendation:

The Department should:

- Develop contract monitoring procedures to ensure that contractors comply with contract performance statements.
- Develop and implement procedures that do not rely upon the applicant self-reporting cases of permanent and involuntary displacement.
- Implement procedures to ensure that contractors selected by the Department are not currently prohibited from participating in federal programs, as required by the program guidelines.

Management's Response:

- *Management agrees with the importance of monitoring procedures and has established procedures to help ensure that incidences like the one reported do not re-occur. The award mentioned in the audit was made several years ago and the controls in place at that time are not reflective of those currently used. The manager and assistant planner will review and enhance the program's standard operating procedures to ensure that the current procedures have been formalized to the extent that they are not, by February 15, 2001.*
- *Management agrees and has revised the program application that asks the applicant to address this issue directly. Additionally, the Construction Specialist who conducts construction inspections will verify compliance with the Housing Trust Fund Guidelines, Section 13: Tenant Protections regarding tenant relocation. Verification will be documented for each construction inspection. These procedures will become effective for the Fiscal Year 2001 Funding Cycle.*
- *Management agrees that it needs to implement procedures to ensure that contractors selected by the Department are not prohibited from participating in federal programs. The Program Manager and Assistant Planner will place more defined policies and procedures in the program standard operating procedures. This will be accomplished by January 31, 2001.*

Section 2-C:

The Housing Trust Fund Did Not Allocate Sufficient Dollars to Extremely Low Income Households as Prescribed by the Texas Administrative Code

The Housing Trust Fund did not meet its program goal of allocating 15 percent to extremely low income households in fiscal years 1998 and 1999. It served 3.3 percent and 8.3 percent, respectively. The Texas Administrative Code, Title 10, Section 51.5g, requires the Housing Trust Fund to use its best efforts to apply at least 15 percent of Housing Trust Fund's allocation to serve extremely low income households and 20 percent of the allocation to serve very low income households. In fiscal years 1998 and 1999, the Housing Trust Fund exceeded the goals for very low income, serving 73.5 percent and 74.5 percent, respectively.

The Housing Trust Fund gives points for projects that serve very low and extremely low income households in its scoring of applications. However, distributing points for projects that serve low income households does not satisfy the intent of the Texas Administrative Code because the total funds available for award are not being allocated in accordance with the percentages required by the program goal.

Recommendation:

We recommend that the Housing Trust Fund, in the Notice of Funding Availability and in the award process, ensure that funds are set aside for and are awarded to low income households that meet the goals set forth in the Texas Administrative Code.

Management's Response:

The Department's strategy to provide points under scoring criteria to serve extremely low income households has proved an insufficient incentive for developers of affordable housing. Based on comments from working groups, the Department is working to develop products to subsidize these income groups; e.g. forgivable loans, interest of principal subsidies, etc. The NOFA will target these groups via new product designs for the 2001 funding cycle. The Director of Housing Programs and the Manager of the Housing Trust Fund will implement this strategy.

Section 3:

The Low Income Housing Tax Credit Program Has Made Improvements on Prior Audit Issues, But Oversight of Program Costs and the Timeliness of Management Action Need to Be Strengthened

Low Income Housing Tax Credit Program

The **Low Income Housing Tax Credit program** awards tax credits to developers for the construction and/or renovation of low income rental housing units. The program awards approximately \$25 million in tax credits each year. See **Appendix 5** for maps detailing applications and awards for 1995-1999.

The Department has certain weaknesses related to management oversight and accounting for program costs. There was a significant delay in management response to one incident involving an ineligible employee benefitting from the program. In addition, the allocation of fees collected from applicants is not adequately documented to verify that they are spent only to support processing costs. The Low Income Housing Tax Credit program collected \$1.4 million in application and commitment fees for fiscal year 1999. The Department has addressed a prior audit issue related to noncompliance with underwriting standards.

Section 3-A:

Management Did Not Take Prompt Action When It Became Aware That an Ineligible Department Employee Had Benefitted From the Low Income Housing Tax Credit Program

Although the Department investigated and verified that an ineligible employee was residing in a Low Income Housing Tax Credit program apartment complex, management did not issue a letter to the employee about the circumstance for seven months. During our testing of project files, we observed that the Department received an anonymous complaint in December 1999 that there were questionable practices occurring at one Low Income Housing Tax Credit program apartment project in Austin. Compliance Division staff investigated this complaint in April 2000 and verified that one of the tenants in the complex was a Department employee who was not eligible for this program. The employee had an income from the Department of nearly \$45,000 annually and did not qualify to live in a low income unit. The Low Income Housing Tax Credit program requires tenants to have income of \$35,880 per year or less for a family of five.¹ This employee did not report his income from the Department and only reported his income from a second job, \$34,248, in order to qualify for the low income unit.

The Department appropriately reported the problem to the Internal Revenue Service after the Compliance Division completed its investigation in April. However, Department management issued its first letter to the employee in mid-October. The letter expressed concern with the employee's actions and requested that the employee report the outside employment in compliance with the Department's dual employment policy. As of November 15, 2000, the employee had not provided the documentation as requested, but no disciplinary action had been taken at the time of the audit.

¹ The income calculation is based on income and the number of individuals residing in the unit.

The Department's ethics policy states that employees should avoid any action that might result in or create the appearance of adversely affecting the confidence of the public in the integrity of the Department. Furthermore, the ethics policy states that employees may be subject to disciplinary action if ethics standards are violated.

Recommendation:

We recommend that the Department take timely action in regard to the employee's actions, in accordance with its ethics policy.

Management's Response:

As we have discussed with staff of the State Auditor, this issue is not related to the administration of the low-income housing tax credit program. The concerns expressed by the SAO are entirely related to an internal management issue. The Department acknowledges that the length of time taken to investigate this matter was protracted. In the unlikely event of a similar situation occurring, the investigation can be expedited because the Department now has precedent for handling such matters. In this case, the investigation was protracted due to the Executive Director wanting to ensure that all facets of the investigation were addressed.

Management action concerning this issue was taken well before the Executive Director issued her first written admonishment on October 16, 2000. On April 3, 2000, the Director of the Compliance Division met with the Department's ethics advisor concerning the employee's actions. On April 12, 2000, the Compliance Director and the Ethics Advisor met with the supervisor of the employee in question and on April 13, 2000 the employee issued a memorandum to relate his understanding of the issue. Discussions continued and applicable laws were examined, including §321.022 of the Government Code. It was determined that by review of §321.022, it did not apply to an employee's alleged fraud concerning his personal residence. On May 2, 2000, the Ethics Advisor sent a memorandum to Department's Executive Director concerning this ethics and personnel issue. The Executive Director appropriately decided to wait to take action until it could be determined whether the employee had been encouraged by the management company of the tax credit property to omit a source of income. The response of the owner of the tax credit property to the Compliance Division's audit was not due until August 18, 2000. The owner did not agree that tenant income had been under-reported. Nevertheless, on September 1, 2000, Department reported to the IRS (the enforcement agency for the tax credit program) on Form 8823 the apartment unit in which the agency employee had resided as ineligible to receive tax credits. Discussions among the Executive Director, Deputy Executive Director, Compliance Division Director, and the Ethics Advisor continued in September and October. On October 16, 2000, the Executive Director sent a memorandum to the employee that requested information concerning his outside employment and expressed displeasure about the misrepresentation of his income. The memorandum was placed in the employee's official personnel file.

Employees of the Compliance Division as well as the Ethics Advisor responded to requests for information and documents from a criminal investigator of the SAO

during the months of October and November 2000. On October 25, 2000 and November 14, 2000 memoranda to update the Executive Director were sent from the Ethics Advisor to the Executive Director. On November 15, 2000, the Executive Director sent another memorandum to the employee that advised him of possible termination from employment if he did not submit the information that had been requested on October 16 by the close of business on November 20, 2000. The employee submitted the information in the afternoon of November 20. Memoranda concerning the information submitted and recommended actions have been sent from the Deputy Executive Director and the Ethics Advisor to the Executive Director.

State Auditor's Follow-Up Comment:

The State Auditor's staff first reported this issue to the Special Investigative Unit of the State Auditor's Office in October 2000.

Section 3-B:

The Low Income Housing Tax Credit Program Does Not Have Adequate Support for Program Administration Costs

There is no allocation methodology to support costs that were used to administer the Low Income Housing Tax Credit program. In fiscal year 1999, the Low Income Housing Tax Credit program collected \$1.4 million in application and commitment fees. Government Code, Section 2306.677, says that "a fee charged by the department to an applicant for a low income housing tax credit may not be excessive and must reflect the department's actual costs in processing the applications and providing copies of documents in connection with the application process."

The Department does not have a methodology to determine the true cost of application processing to support compliance with the Government Code. Management states that \$415,000 in application fees was collected in fiscal year 1999 and the cost of program operations totaled \$536,860. Program staff members perform duties other than application processing so the actual cost of processing is unknown.

Additionally, application fees are placed in the same account as commitment fees. Therefore, the Department cannot confirm that application fees were used only as intended by the Government Code. Having a single account for all fees makes it difficult to monitor compliance for use of application fees. While application fees are restricted to the cost of the program, commitment fees can be used at the Department's discretion. Examples of expenditures from the joint account include:

- The Department allocated \$200,000 to its information technology department, although that department provides minimal support for the Low Income Housing Tax Credit program. The program uses a vendor's database for its information needs. The Department paid \$6,700 in fiscal year 1999 to an external vendor for system maintenance. The \$200,000 is approximately 19 percent of the Department's total budget for information technology.

- The Department allocated \$72,000 to its internal audit department, which represents 40 percent of that department's salary budget for fiscal year 1999. The internal audit department spent 72 hours on this program in fiscal year 1999.

Lack of documentation for application processing costs impairs the Department's ability to demonstrate compliance with the statute.

Recommendation:

We recommend that the Department develop an allocation plan to ensure that application fees are appropriately allocated to support only application processing costs as required by Government Code.

Management's Response:

The Department agrees that application fees are to support only application processing costs as required by Government Code and believes that the costs of processing applications is in excess of application fees collected. The Department's accounting system has the ability to separately track and account for the fees. To ensure that the fees are not excessive and are used only for the costs of processing applications, the Director of Housing Programs will coordinate the documentation of application expenses among all divisions that provide direct benefit during the tax credit application process in the future. These expenses will be specifically tracked and accounted for monitoring purposes. Procedures will be established for the next application cycle and an analysis of the reasonableness of application fees will be completed by September 2001.

Section 3-C:

The Low Income Housing Tax Credit Program Has Addressed a Prior Audit Issue Related to Noncompliance With Underwriting Standards

The Low Income Housing Tax Credit program has made significant improvements regarding a prior audit finding.² The finding noted that recommendations from the Department's underwriting department were not followed in the approval of eight project applications totaling \$1.75 million in fiscal year 1995. Both the program staff and the Board approved the projects despite an initial statement from the underwriting department that the projects were not viable. We reviewed approximately 300 project awards from fiscal year 1996 through fiscal year 1999 and found no instances in which the Board awarded an application that was previously denied by underwriting.

² The prior audit finding was reported in *A Memorandum to the Texas Department of Housing and Community Affairs on the Low Income Housing Tax Credit Program* (SAO No. 96-338, August 1996).

The underwriting department is responsible for evaluating the financial feasibility of the proposed tax credit projects.

Section 4:

Insufficient or Unreliable Data Limits the Department's Ability to Plan and Monitor Service Delivery

The Department does not obtain, or in some cases accurately maintain, certain data relevant to projecting housing needs or monitoring existing housing services. Additionally, the Department does not have an overall plan for coordinating its programs to promote achievement of Rider 3 of the General Appropriations Act.

Section 4-A:

The Statewide Needs Assessment for Affordable Housing Does Not Include Sufficient Consideration of the Supply of Housing or Funding from Other Sources Provided to Texas Cities

For the period reviewed, the Department's process to determine the need for affordable housing in the State did not adequately consider key factors that would help prioritize its allocation of funding and services. The Department's needs assessment is reflected in the Low Income Housing Plan, which primarily evaluates housing supply using 1990 census data. However, the process does not include an evaluation of the housing supply provided over the years by the Department's programs or the funding provided to Texas by sources outside the Department. Without this information, the Department cannot identify the neediest areas of the state or address gaps in funding for specific areas.

The Department does not consider local, state, or federal housing resources in the needs assessment. For example, in fiscal year 1999, HUD provided \$62.6 million in housing assistance directly to local entities or participating jurisdictions in Texas. HUD provided an additional \$37 million to the Department, of which \$6.3 million was awarded to participating jurisdictions. Although there may be sufficient demand in certain local areas to support multiple funding sources, the Department has not performed analysis to verify those conditions or to address potential gaps in funding for nonparticipating jurisdictions.

Table is a list of the largest twelve awards to cities or counties that have received significant funding directly from the federal government and from the Department. (See pages 43 and 44 for complete lists of participating jurisdictions that received

funding from both the Department and HUD.) Over a five-year period, these localities received \$35.3 million (25 percent of the total five-year funding) in services funded by the Department's HOME program. For the same five-year period, these localities were awarded \$164.9 million in HOME funds directly from HUD.

Unlike some other states, the supply of affordable housing is not adequately addressed in the Department's assessment of need. Four other states that include the supply factor in their assessments are California, Michigan, New York, and Arizona. These states conduct an inventory of affordable housing built or available. This inventory can be used to evaluate the impact of housing services provided in the past, and to improve planning for providing future services.

Table 2

Largest Twelve HOME Awards to Participating Jurisdictions		
Participating Jurisdictions	Department HOME Funds to Participating Jurisdictions 1995 to 1999	HUD HOME Funds to Participating Jurisdictions 1995 to 1999
Austin	\$ 6,271,655	\$ 14,205,000
Hidalgo County	3,984,909	9,139,000
El Paso	3,961,690	19,557,000
San Antonio	3,431,725	32,412,000
Harris County	3,036,724	13,455,000
Houston	3,006,042	53,634,000
Laredo	2,945,833	6,350,000
Brownsville	2,784,536	5,342,000
Bryan	2,000,289	1,619,000
Longview	1,787,158	2,029,000
Garland	1,267,224	2,734,000
Waco	856,112	4,422,000
Total Funds	\$ 35,333,897	\$ 164,898,000

Source: The Department's Genesis System and the U. S. Department of Housing and Urban Affairs

Recommendation:

The Department should revise the needs assessment process to ensure identification of the areas with the greatest need for affordable housing. It should also consider funding provided from all sources, such as:

- The amount of funds that HUD annually awards to the state
- Awards made from the Private Activity Bond Allocation Program (available from the Texas Bond Review Board)

The process should include an adequate assessment of the current supply of affordable housing, including an inventory of housing provided by the Department's programs. External information on income levels and housing is now available from many sources. Two such sources are the Texas State Data Center and the Texas A&M University Real Estate Center. The Texas State Data Center functions as a focal point for the distribution of Census information for Texas. It also disseminates population estimates and projections for Texas, as well as other information from the federal government, state government, and other sources. The Texas A&M University Real

Estate Center conducts real estate related research based on the needs of Texas citizens.

Management's Response:

In the 1996 and 2001 State of Texas Consolidated Plans as well as the 1995 through 2001 annual State of Texas Low Income Housing Plans, a description of the supply of affordable housing is given. It does not, however, include the number of units subsequently assisted by the Department and other entities within the State since the 1990 census. While the information presented is aggregated as a statewide number, it is available at the county and city level (cities with a population over 10,000). This information is continually distributed to nonprofit and for profit organizations interested in developing affordable housing. To supplement 1990 Census data, in the 2001 State of Texas Consolidated Plan and the 2001 State of Texas Low Income Housing Plan and Annual Report, the housing stock information has been updated to add information for single family and multifamily housing starts since 1990. The Department has requested as an exceptional item under its Legislative Appropriations Request (LAR), additional full-time equivalent employees and funding to undertake a more comprehensive needs assessment that will include housing supply. This will include units assisted by the Department and other entities providing housing in Texas. The Department will then be able to evaluate supply along with demand when identifying areas of greatest need within the State.

The Department agrees with the recommendations but recognizes that there are data limitations that make planning in a state the size and diversity of Texas a challenge. Recently, in addition to the LAR request discussed above, the Office of Strategic Planning/Housing Resource Center has begun several activities to address these data limitations:

- *Undertaken a comprehensive Community Needs Survey to better assess local needs.*
- *Requested additional employees to continue needs assessment at the local level as well as act as affordable housing facilitators.*
- *Started discussions with an independent housing market research group on a pro bono basis, to develop a database, which, if successful, will take into account various economic factors including supply side and demand side needs. The resulting information will help the Department identify need for both single family and multifamily housing at the city level. The Department's Housing Resource Center currently publishes a Housing Resource Guide, which includes funding sources for the development and improvement of housing. This guide is available through the Department's web site.*

Section 4-B:

The Department Does Not Have an Overall Plan for Coordinating Its Programs to Promote Achievement of Rider 3

Rider 3 established a goal for the Department to distribute 15 percent of the Housing Finance Division's total funding toward providing housing assistance for individuals and families earning less than 30 percent of the area median family income (AMFI).³ The Department's records for fiscal years 1998 and 1999 indicate that 5.56 percent and 7.67 percent, respectively, of the Housing Finance Division's funding was awarded to projects serving citizens who earn less than 30 percent of the AMFI.

Rider 3 also states that no less than 20 percent of the Division's total housing funds should be spent on low income individuals and families earning between 31 and 60 percent of the AMFI. However, these targets are not coordinated at the program level so that each program can focus on contributing a specific portion of the goals.

Recommendation:

The Department should develop an overall plan to ensure that \$30 million of the Housing Finance Division's dollars are spent on individuals and families earning 0 to 30 percent of the AMFI.

Management's Response:

Management agrees with the recommendation and has developed a plan for FY 2001 to ensure that \$30 million of the Housing Finance Division's dollars are spent of individuals and families earning 0-30 percent of the area median family income as set out by Rider 3.

Section 4-C:

Unreliable Data Diminishes the Department's Ability to Measure Progress and Provide Adequate Oversight of Housing Programs

Limited assurance on the accuracy of contract data impairs management's ability to conduct proper oversight of funds and contractors. We identified several instances in which data critical for monitoring and reporting purposes was inaccurate or not available in Department systems:

- In HOME's Genesis database, 7 percent of all projects had incomplete or inaccurate information. Specifically, several of the fields contained incorrect addresses and zip codes. HOME staff members use this database to manage and monitor contracts. This information is also used in compiling information for external reporting. Therefore, this data must be accurate to report performance on a statewide basis.

³ The 76th Legislature changed the Rider 3 goal from 15 percent to \$30 million for the 0 to 30 percent AMFI.

- For the Low Income Housing Tax Credit program, the award amounts for several contracts listed in its program database were different from, and in some cases doubled, the award amounts listed in a separate spreadsheet provided by program management. Department management reported a bug in the external vendor's system that caused the difference in the balances. Low Income Housing Tax Credit program staff and the Compliance Division use this database to manage and monitor contracts. This information is also used in compiling information for external reporting.
- The Housing Trust Fund program uses a spreadsheet to track its contracts. This spreadsheet had not been updated since fiscal year 1999, when the Department began development of a new information system specifically for this program. To date, the new system is not operational. As a result, the summary data for the program contained incomplete and inaccurate information.

Recommendation:

The Department should ensure that data in all of the programs' contract management systems is accurate and complete.

Management's Response:

The Department agrees with the need for accurate and complete data. In addition to implementing a Department-wide database to help ensure the accuracy and completeness of data and to better serve the information needs of the Department, actions have been taken and plans are being put in place to address these issues, as follows:

- *Management became aware of some inaccuracies and incomplete fields in the Genesis database when HOME went through a HUD audit of the HUD Cash and Management Information System (CMIS) system. Many corrections have been made to ensure the accuracy and completeness of the fields; however, this was a slow and cumbersome process since the Department had to rely upon HUD for data entry.*

CMIS was fully converted to the new HUD Integrated Data Information System (IDIS) in August 2000. HOME staff now has direct access to IDIS for project set-ups and corrections. This will ensure consistency with the Genesis system and allows Department staff the ability to make changes directly with IDIS precluding the need to rely on HUD.

Management has also raised the awareness of the HOME staff of the importance of complete and accurate data and the need for diligence during the data entry process. However, HOME staff has to rely on the set-up forms provided by the Administrator, which, at times, is the source of error.

Considering the size of the program with over 10,000 project set-ups over the life of the program, human error will occur, however Management will be reviewing the set-ups on a sampling basis to ensure data integrity going forward.

- *LIHTC staff will continue to use the spreadsheets it maintains to complement AOD, a management information system, and to ensure the accuracy of data. The Manager of the LIHTC will work with AOD Software personnel to make the necessary corrections or modifications to the software to obtain accurate and reliable data. The Department estimates that this could be accomplished by the end April 2001, however, AOD has been slow to respond to previous programming request. Additionally, the software is used by a number of states and specific programming requests, unique to a single state, are expensive. The Department will express its concerns and solicit support from other states at the future National Council of State Housing Agencies conferences and AOD user group meetings that it regularly attends to encourage AOD to make the needed changes.*
- *Housing Trust Fund staff has re-implemented and updated the original spreadsheet method used for tracking contracts, and the information is now accurate and complete. This spreadsheet method will be maintained and kept current until the new information system is fully operational. The Housing Trust Fund manager will continue to monitor the development of the new information system until it is fully operational to provide accurate and reliable information.*

Objective, Scope, and Methodology

Objective

The objective of the audit was to determine if the Department of Housing and Community Affairs (1) has developed a process to deliver housing services to the neediest areas of the State, (2) objectively awards and monitors its contracts, and (3) maximizes its use of housing funds.

Scope

The scope of this audit included all applications submitted to the Department and all contracts awarded by the Department for the Low Income Housing Tax Credit program, HOME, and the Housing Trust Fund program from fiscal years 1995 through 1999. An audit scope limitation existed for HOME because unfunded applications from 1995 through 1999 were not available for review. As a result, we were unable to test the objectivity of the contract award process.

We tested each program's financial information, needs assessment procedures, and related data. Performance measure information for fiscal years 1995 through 1999 was also reviewed.

Additionally, we have limited assurance regarding the validity and reliability of the Department's data. The results of our data analysis are included in this report to demonstrate the information the Department is relying upon for its decision making. Contract data evaluated for HOME is based upon the status as of the end of May 2000.

Finally, we reviewed the Department-wide needs assessment process as it relates to the three programs under review.

Areas addressed during this audit included:

Needs Assessment Process

- Does the Department's needs assessment reflects the areas of highest need in the State?
- Does the needs assessment include consideration for other federal funding given to entitlement cities?
- Are the neediest (or most appropriate) areas of the state being served?

Program Costs

Are program costs allocated to ensure maximum benefit to the citizens of Texas (Are administrative costs too high? How much of the money is actually used for direct housing services?)

Contract Management and Monitoring (including the award process)

- Does the award process ensure that contractors are objectively selected?
- Are contracts written in a manner that will ensure delivery of quality services and appropriate use of public funds?
- Does contractor oversight ensure that contractors consistently provide quality services (by measuring performance against well-documented expectations) and that public funds are spent appropriately?
- Are performance measures being met?
- Are performance targets reasonable?

Methodology

The methodology used on the audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against pre-established criteria.

Information collected to accomplish our objectives included the following:

- Interviews with 22 program and accounting management and staff
- Documentary and analytical evidence such as:
 - Program policies and procedures
 - Applicable statutes and guidelines
 - Review of 131 applications
 - Review of 61 contract files of the Department and of selected subrecipients for the programs
 - Review of financial data on direct and administrative program costs
 - Review and analysis of contracting data contained in each program's information system
- Physical evidence such as 64 site visits to the property locations receiving the services. (These properties were in 8 of the 11 Department regions.) Verified the existence of low income properties developed by each program's subrecipients.

For each program, we reviewed and tested the process used to:

- Determine the “need” for program services
- Award the initial contract
- Monitor contractor performance
- Monitor and document performance measures required by the Legislative Budget Board

We conducted fieldwork from April 2000 through November 2000. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no significant instances of noncompliance with these standards.

The following members of the State Auditor’s staff performed the audit work:

- Nicole J. Merridith-Marrero, MBA (Project Manager)
- J. Scott Killingsworth, CIA (Assistant Project Manager)
- Ryan Simpson, MBA
- Lucien Hughes
- Kevin Hannigan, MBA
- Nikki Raven, MA
- Lynn Magee, MBA
- Carmelita Lacar, MBA, MA, Ph.D.
- Lisa Sheppard, MSSW
- Susan Van Hoozer, MBA
- Jennifer Wiederhold
- Herman Huck
- Lisa R. Collier, CPA
- Ruby Elizabeth Garcia, CIA
- Carlos Salinas, MA, MPA
- Bruce Truitt, MPAff (Quality Control Reviewer)
- Nick L. Villalpando, CPA, MPA (Quality Control Reviewer)
- Valerie D. Hill, MBA (Audit Manager)
- Deborah L. Kerr, Ph.D. (Audit Director)

Appendix 2:

Performance Measures

(Note: The following charts contain selected performance measures for fiscal years 1995 through 1999. The information shows whether the Department (1) met its performance targets set by the Legislature, and (2) had adequate summary support for the results it reported. If problems with the support existed, auditor comments are noted.)

Low Income Housing Tax Credit Program						
Performance Measure	Fiscal Year	Budget per ABEST ⁴	Results Reported	Met Target	Adequate Support Provided	Auditor Comments
Number of Very Low and Low Income Units Set Aside	1995	15,000	4,365	No	Yes	None
	1996	15,000	4,436	No	Yes	None
	1997	15,000	5,494	No	Yes	None
	1998	7,320	11,878	Yes	Yes	None
	1999	7,539	5,440	No	Yes	None
Average Cost in Federal Tax Incentives per Rental Unit Developed	1995	\$1,100	\$2,341	No	Yes	None
	1996	\$2,200	\$4,102	No	Yes	None
	1997	\$3,502	\$4,881	No	Yes	None
	1998	\$3,607	\$5,186	No	Yes	None
	1999	\$3,715	\$4,900	No	Yes	None
Number of Federal Tax Credit Allocations	1995	N/A	N/A	N/A	N/A	None
	1996	N/A	N/A	N/A	N/A	None
	1997	N/A	N/A	N/A	N/A	None
	1998	56	123 ⁵	Yes	Yes	None
	1999	58	53	No	Yes	None

⁴ ABEST is the Automated Budget Evaluation System for Texas.

⁵ This number reflects awards made for two funding cycles.

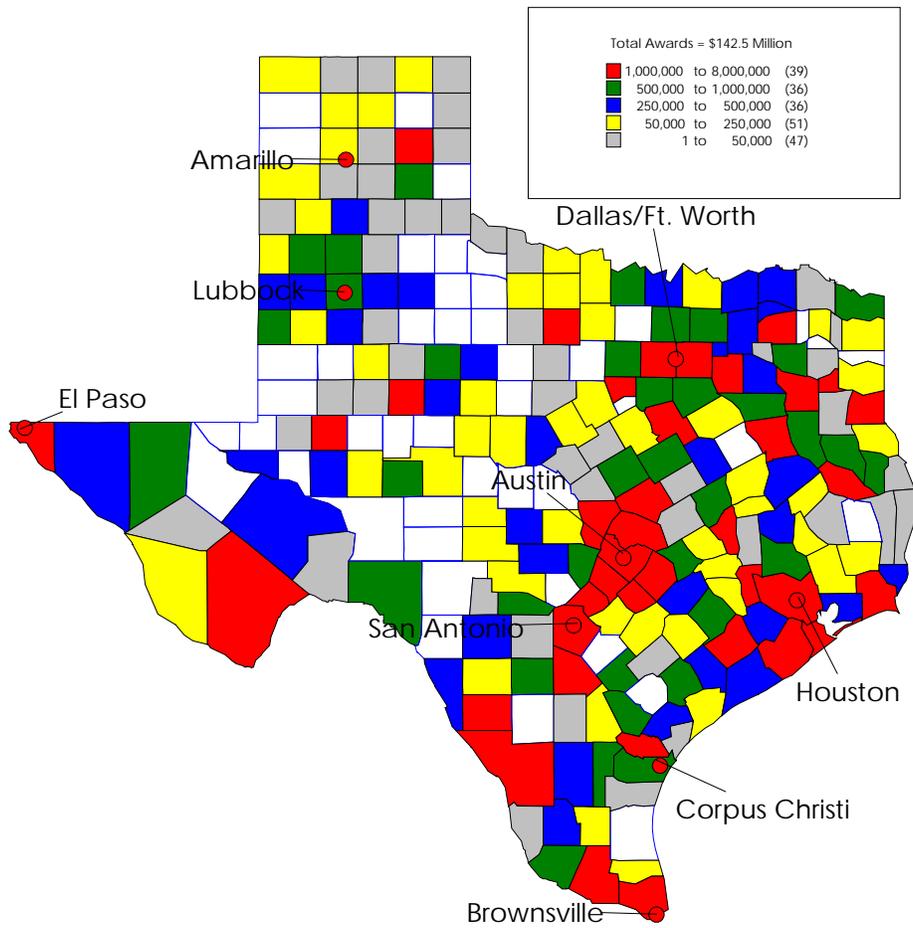
HOME Program						
Performance Measure	Fiscal Year	Budget per ABEST	Results Reported	Met Target	Adequate Support for Results	Auditor Comments
Number of Very Low and Low Income Households Benefitting from Home Investment Program Loans/Grants ⁶	1995	1,083	443	No	No	The Department was unable to provide documentation to support the performance measures for 1995-1997.
	1996	1,838	968	No	No	
	1997	1,838	2,617	Yes	No	
Number of Very Low Income Households Benefitting HOME Investment Program Loans/Grants	1998	842	685	No	Yes	None
	1999	842	772	No	Yes	None
Number of Low Income Households Benefitting HOME Investment Program Loans/Grants	1998	1264	2488	Yes	Yes	None
	1999	1264	1623	Yes	Yes	None

⁶ For fiscal years 1995 through 1997 the agency was required to report the combined number of very low and low income households benefitting from HOME funds. Beginning in fiscal year 1998 the measure was separated to create two new measures, one for very low and one for low income.

Housing Trust Fund						
Performance Measure	Fiscal Year	Budget per ABEST	Results Reported	Met Target	Adequate Support for Results	Auditor Comments
Number of Very Low and Low Income Households that Received Loans and Grants through the Housing Trust Fund	1995	500	488	No	No	As reported in SAO Report No. 96-052, this measure was inaccurate due to a deviation of more than 5 percent and different interpretation of the performance measure definition.
	1996	250	291	Yes	No	The ABEST measure definition requires that this measure be calculated using monthly reports submitted by program applicants. The agency did not require applicants to submit reports; consequently, they could not be used for the calculation.
	1997	280	329	Yes	No	
Projected Number of Very Low and Low Income Households Benefitting from Housing Trust Fund Loans and Grants (GAA)	1998	210	358	Yes	No	The documentation provided did not agree with the measure definition or the program Standard Operating Procedures (SOP). The definition requires that the measure be calculated using contracted awards.
	1999	210	1732	Yes	No	A re-calculation resulted in a -12.7 percent variance from the number reported to ABEST. The definition requires that the measure be calculated using contracted awards.
Average Loan Amount Provided Through the Housing Trust Fund	1996	\$ 250,000	\$ 659,187	No	No	The ABEST measure definition requires that this measure be calculated using monthly reports submitted by program applicants. The agency did not require applicants to submit reports; consequently, they could not be used for the calculation
	1997	\$ 250,000	\$ 41,666	Yes	No	
Average Grant and/or Loan Amount per Projected Household Served Through the Housing Trust Fund	1998	\$ 11,813	\$ 4,422	Yes	No	The documentation provided did not agree with the measure definition or the program SOP. Also, the SOP does not follow the measure definition. The definition requires that the measure be calculated using actual awards.
	1999	\$ 11,912	\$ 3,427	Yes	No	

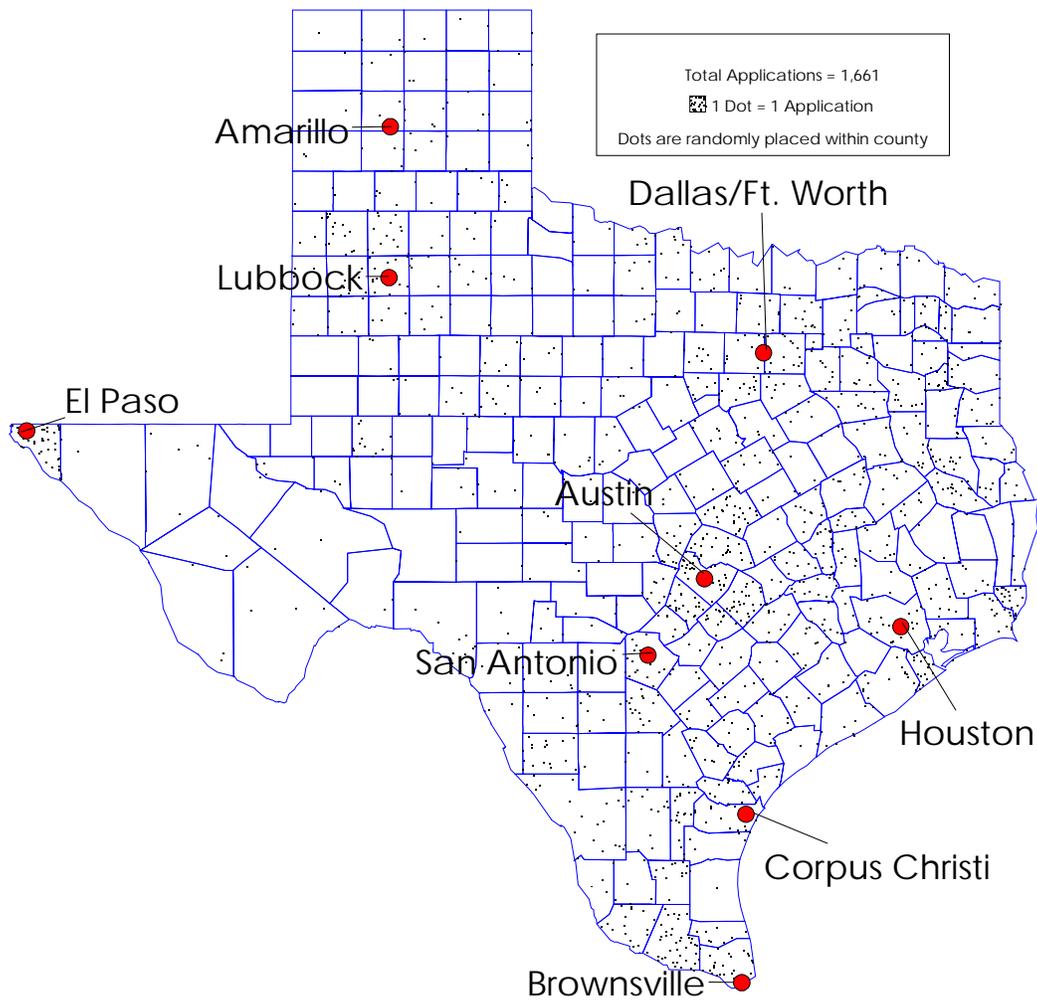
Selected Maps for the HOME Program

Home Program 1995 - 1999 Dollars Awarded



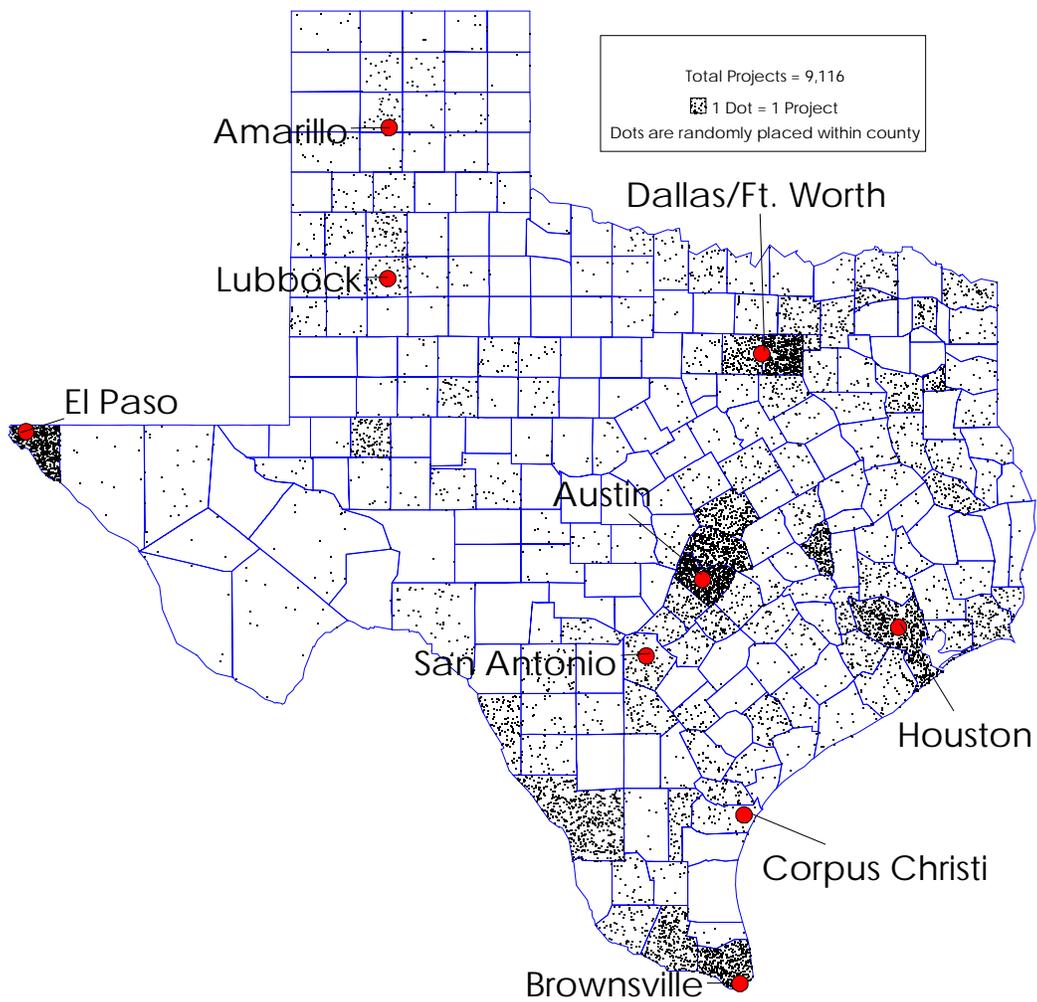
Source: Genesis database (unaudited data)

Home Program 1995 - 1999 Applications Received



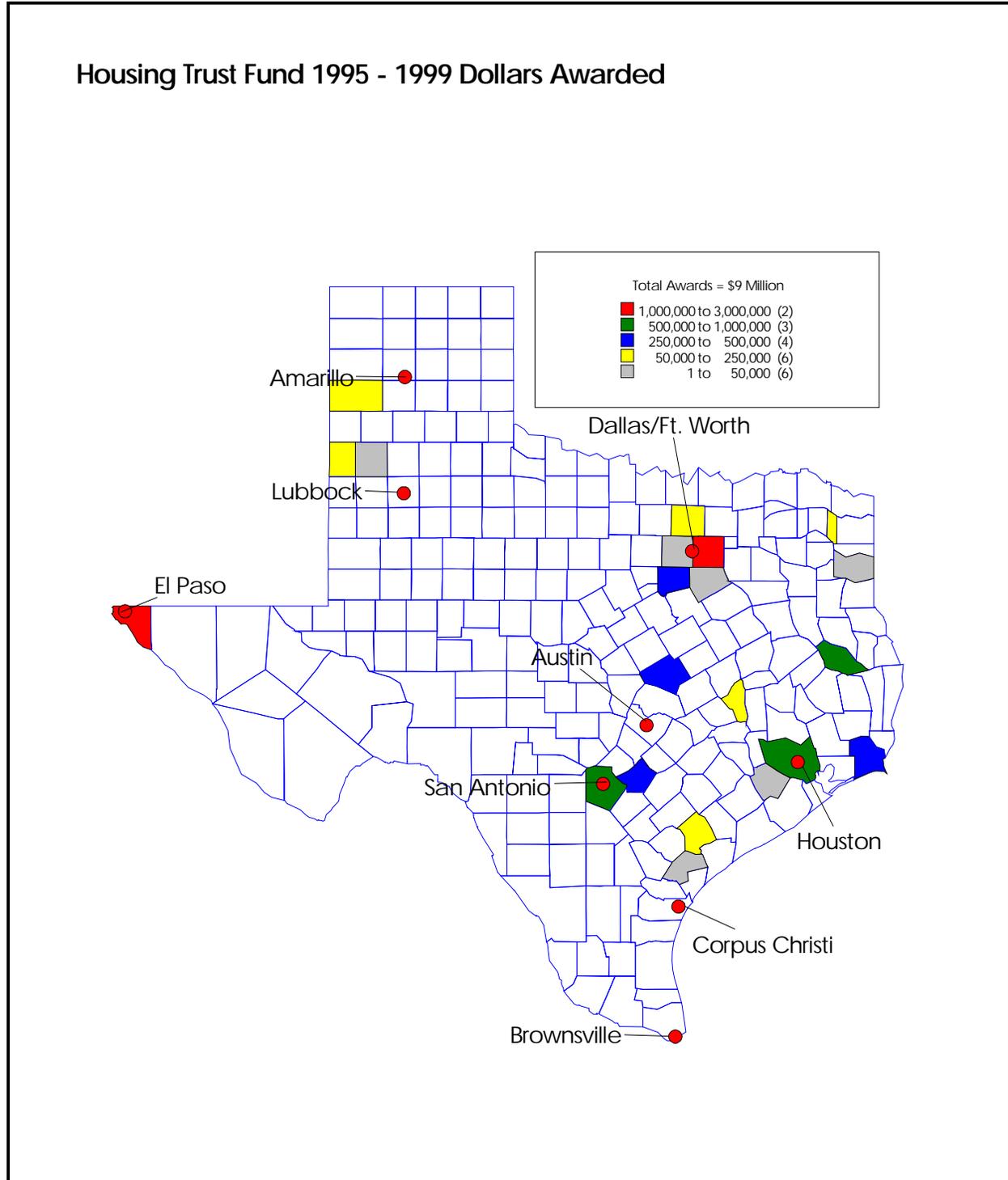
Source: Genesis database (unaudited data)

Home Program 1995 - 1999 Service Recipient Locations



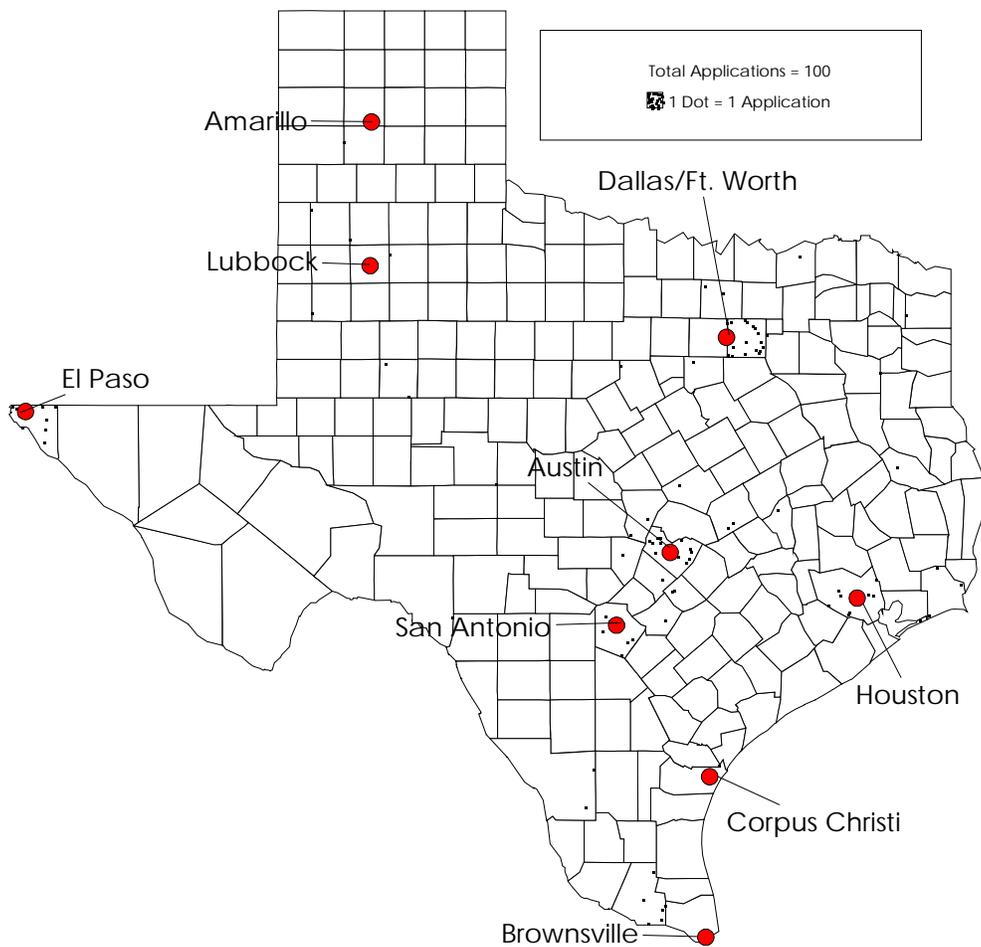
Source: Genesis database (unaudited data)

Selected Maps for the Housing Trust Fund Program



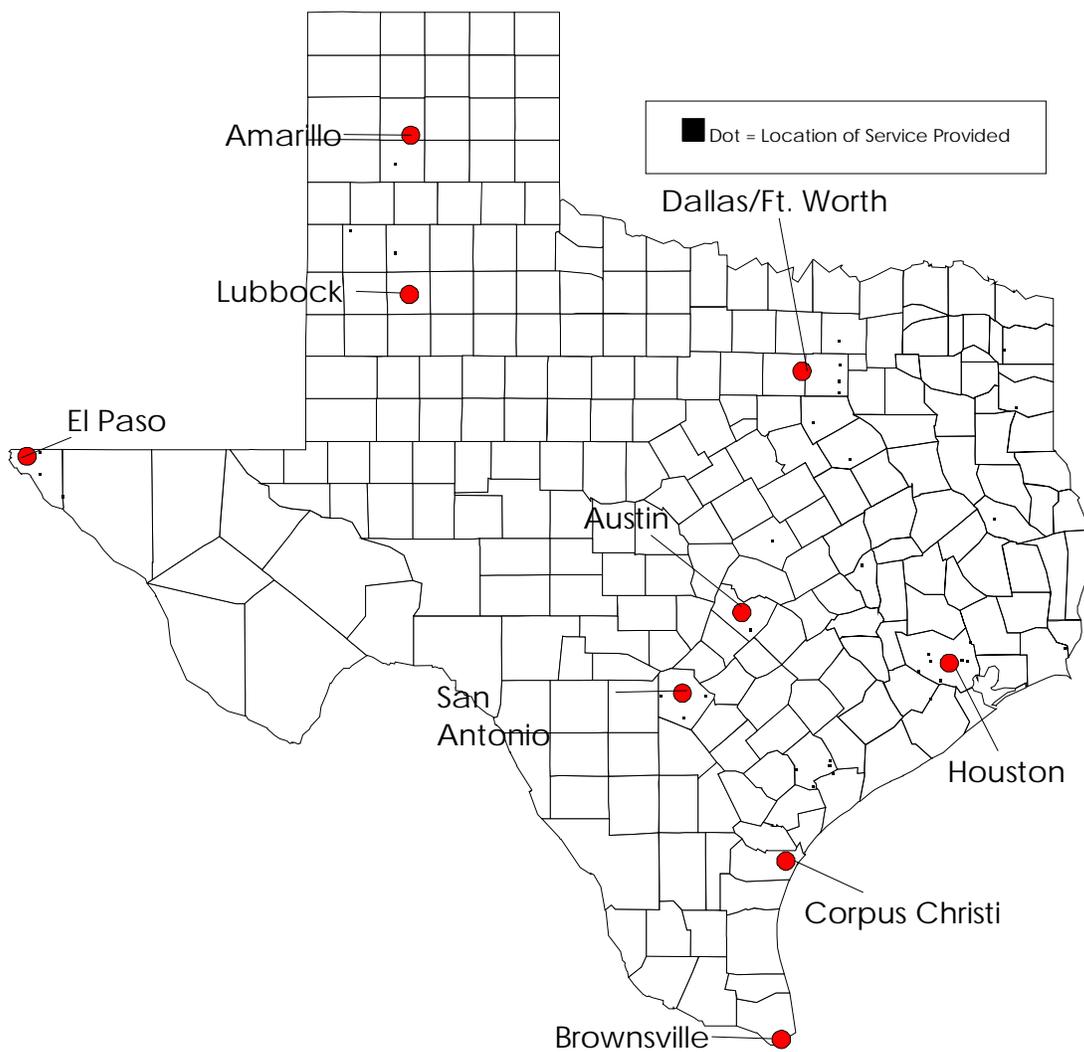
Source: Housing Trust Fund award and contract data (unaudited data)

Housing Trust Fund 1995 - 1999 Applications Received



Source: Housing Trust Fund award and contract data (unaudited data)

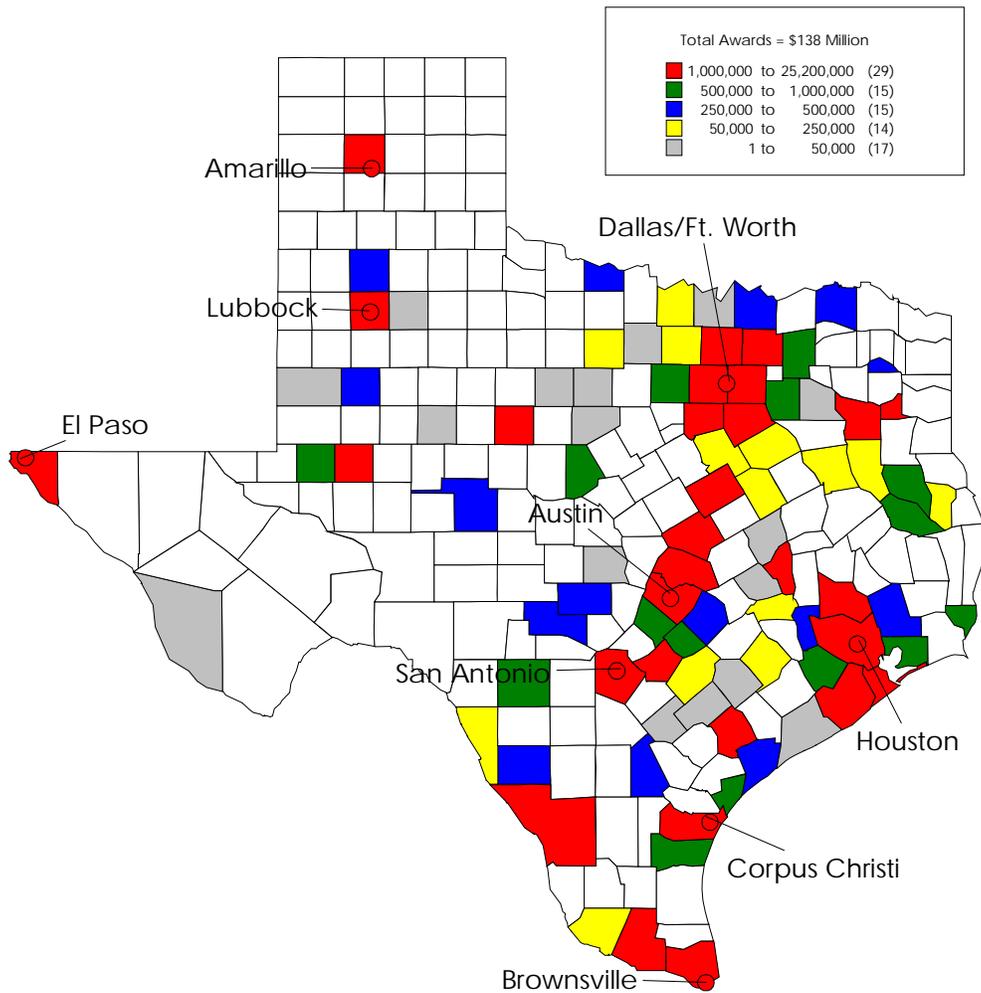
Housing Trust Fund 1995 - 1999 Service Recipient Locations



Source: Housing Trust Fund award and contract data (unaudited data)

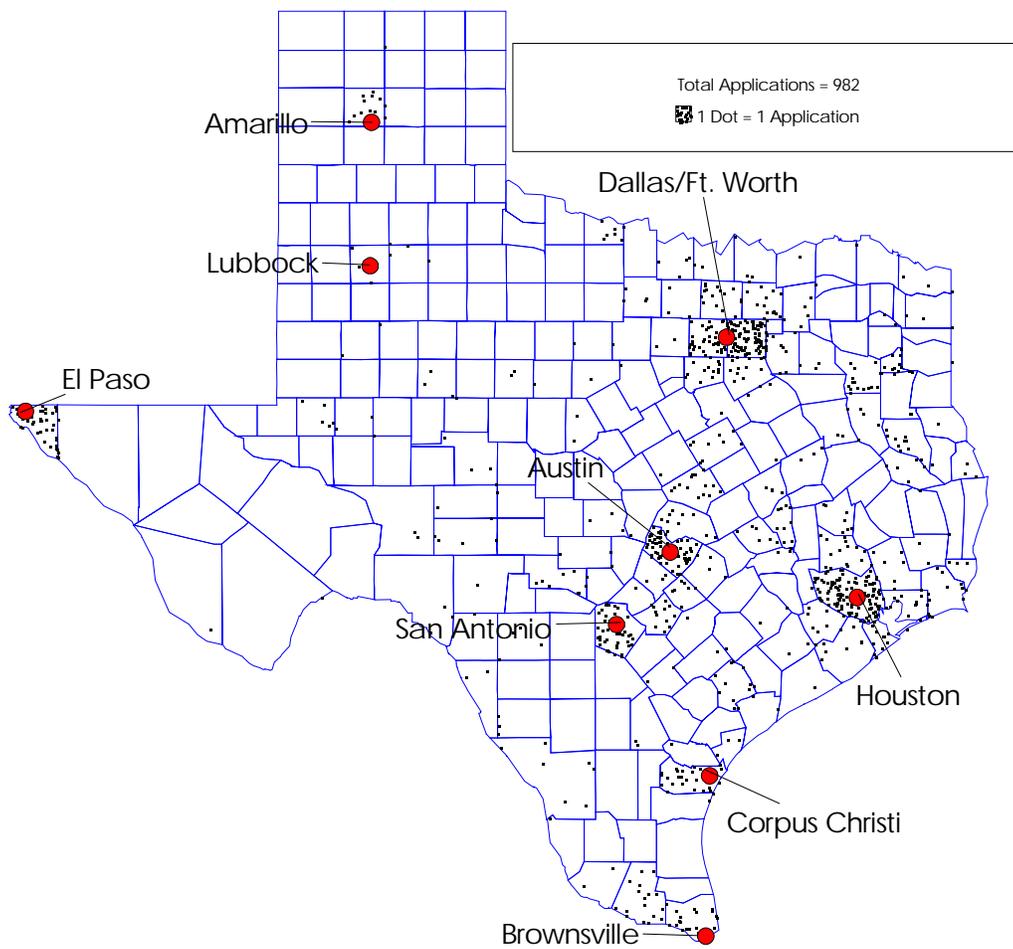
Selected Maps for the Low Income Housing Tax Credit Program

Low Income Housing Tax Credit Program 1995 - 1999 Credits Awarded



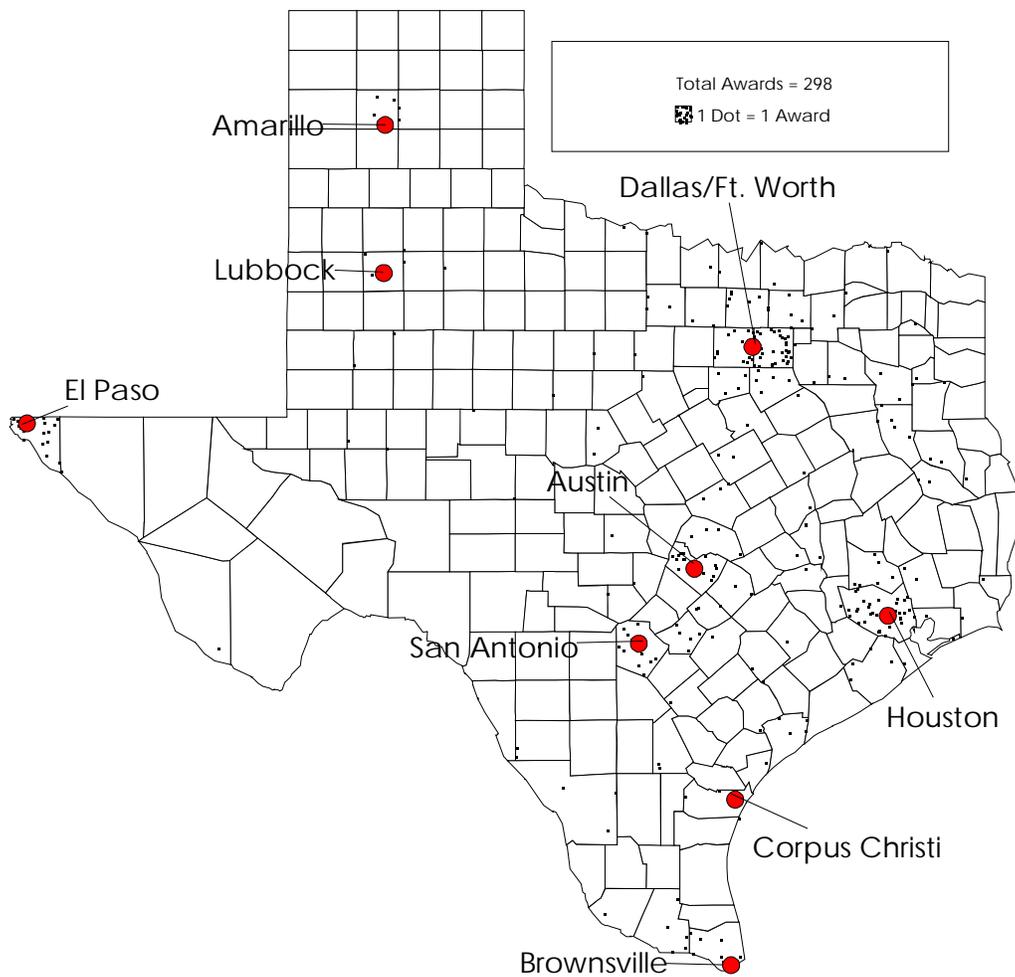
Source: Low Income Housing Tax Credit award and contract data (unaudited data)

1995 - 1999 Low Income Housing Tax Credit Applications Received



Source: Low Income Housing Tax Credit award and contract data (unaudited data)

Low Income Housing Tax Credit Program 1995 – 1999 Service Recipient Locations



Source: Low Income Housing Tax Credit award and contract data (unaudited data)

Appendix 6:

HOME Projects Located in Participating Jurisdictions

HOME Project Located in Participating Jurisdictions						
Participating Jurisdictions	1995	1996	1997	1998	1999	Total
Abilene	\$3,186	\$46,559				\$49,745
Amarillo			\$45,022	\$91,261		\$136,283
Arlington	\$59,180	\$25,000	\$99,047	\$19,185		\$202,412
Austin	\$2,455,539	\$220,334	\$3,008,453	\$527,358	\$59,971	\$6,271,655
Beaumont	\$125,813	\$181,103	\$121,448	\$266,415	\$7,500	\$702,279
Bexar County	\$105,628	\$53,438	\$6,200			\$165,266
Brazoria County		\$599,738	\$15,600	\$200,000		\$815,338
Brownsville	\$270,000	\$400,000	\$975,040	\$594,706	\$544,790	\$2,784,536
Bryan		\$763,948	\$883,382	\$352,959		\$2,000,289
College Station		\$90,000		\$539,597		\$629,597
Corpus Christi			\$115,250			\$115,250
Dallas	\$68,513		\$559,270		\$65,000	\$692,783
Dallas County	\$113,622		\$185,944		\$5,000	\$304,566
Denton					\$582,600	\$582,600
El Paso	\$19,092	\$200,000	\$863,827	\$1,442,822	\$1,435,949	\$3,961,690
Fort Bend County	\$85,646		\$92,653			\$178,299
Fort Worth	\$119,265	\$232,488	\$261,290	\$200,075		\$813,118
Galveston			\$5,000			\$5,000
Garland	\$207,511		\$300,988	\$298,595	\$460,130	\$1,267,224
Grand Prairie	\$91,179		\$53,447			\$144,626
Harlingen	\$334,998		\$242,060	\$120,228		\$697,286
Harris County	\$136,851	\$254,625	\$481,925	\$18,140	\$2,145,182	\$3,036,724
Hidalgo County	\$963,493	\$40,516	\$2,465,921	\$90,020	\$424,959	\$3,984,909
Houston	\$682,217	\$27,740	\$921,836	\$1,374,250		\$3,006,042
Irving						\$0
Killeen		\$10,275	\$25,000			\$35,275
Laredo	\$190,074	\$495,961	\$2,001,749	\$150,000	\$108,050	\$2,945,833
Longview	\$1,225,682	\$16,500	\$544,976			\$1,787,158
Lubbock			\$122,794		\$263,806	\$386,600
Mc Allen	\$15,113		\$228,431			\$243,544
Odessa		\$11,235				\$11,235
Pasadena	\$8,013		\$51,433			\$59,446
Port Arthur	\$35,000	\$23,813	\$17,491	\$37,500	\$7,500	\$121,304
San Angelo		\$77,000		\$70,500		\$147,500
San Antonio	\$312,907		\$1,611,645	\$1,269,571	\$237,603	\$3,431,725
Tarrant County	\$55,191	\$42,512	\$96,717	\$103,012		\$297,432
Tyler	\$73,224	\$26,100	\$2,739			\$102,064
Waco	\$139,445		\$700,394	\$16,273		\$856,112
Wichita Falls	\$14,659	\$24,000	\$3,137			\$41,796
Total Funds to the Participating Jurisdictions	\$7,911,041	\$3,862,885	\$17,110,107	\$7,782,468	\$6,348,040	\$43,014,541
Awards to Non- Participating Jurisdictions	\$16,818,201	\$19,524,095	\$26,444,125	\$19,199,912	\$16,578,345	\$98,564,678

Source: Genesis Database

Appendix 7:

HUD Funding to Texas for HOME Awards

HUD's Direct HOME Awards to Participating Jurisdictions						
Participating Jurisdiction	1995	1996	1997	1998	1999	Total
Abilene	\$488,000	\$480,000	\$470,000	\$497,000	\$534,000	\$2,469,000
Amarillo	\$839,000	\$826,000	\$806,000	\$857,000	\$926,000	\$4,254,000
Arlington	\$865,000	\$902,000	\$882,000	\$938,000	\$1,007,000	\$4,594,000
Austin	\$2,588,000	\$2,781,000	\$2,781,000	\$2,918,000	\$3,137,000	\$14,205,000
Beaumont	\$750,000	\$743,000	\$727,000	\$776,000	\$836,000	\$3,832,000
Bexar County	\$568,000	\$504,000	\$504,000	\$520,000	\$559,000	\$2,655,000
Brazoria County		\$500,000	\$436,000	\$458,000	\$516,000	\$1,910,000
Brownsville	\$1,038,000	\$1,041,000	\$1,041,000	\$1,069,000	\$1,153,000	\$5,342,000
Bryan		\$500,000	\$349,000	\$370,000	\$400,000	\$1,619,000
College Station	\$391,000	\$478,000	\$468,000	\$499,000	\$535,000	\$2,371,000
Corpus Christi	\$1,589,000	\$1,594,000	\$1,594,000	\$1,659,000	\$1,787,000	\$8,223,000
Dallas	\$6,044,000	\$6,133,000	\$5,994,000	\$6,443,000	\$6,965,000	\$31,579,000
Dallas County	\$442,000	\$439,000	\$426,000	\$451,000	\$487,000	\$2,245,000
Denton	\$410,000	\$459,000	\$449,000	\$482,000	\$520,000	\$2,320,000
El Paso	\$3,824,000	\$3,804,000	\$3,720,000	\$3,957,000	\$4,252,000	\$19,557,000
Fort Bend County	\$419,000	\$225,118	\$430,000	\$399,000	\$463,000	\$1,936,118
Fort Worth	\$2,411,000	\$2,445,000	\$2,390,000	\$2,550,000	\$2,744,000	\$12,540,000
Galveston	\$547,000	\$537,000	\$526,000	\$563,000	\$607,000	\$2,780,000
Garland	\$524,000	\$538,000	\$524,000	\$553,000	\$595,000	\$2,734,000
Grand Prairie	\$425,000	\$317,050	\$363,000	\$384,000	\$414,000	\$1,903,050
Harlingen	\$371,000	\$363,000	\$363,000	\$373,000	\$403,000	\$1,873,000
Harris County	\$2,626,000	\$2,674,000	\$2,584,000	\$2,680,000	\$2,891,000	\$13,455,000
Hidalgo County	\$1,890,000	\$1,787,000	\$1,787,000	\$1,769,000	\$1,906,000	\$9,139,000
Houston	\$10,165,000	\$10,462,000	\$10,222,000	\$10,964,000	\$11,821,000	\$53,634,000
Irving					\$797,000	\$797,000
Killeen		\$500,000	\$350,000	\$368,000	\$397,000	\$1,615,000
Laredo	\$1,297,000	\$1,220,000	\$1,220,000	\$1,259,000	\$1,354,000	\$6,350,000
Longview	\$500,000	\$370,000	\$361,000	\$384,000	\$414,000	\$2,029,000
Lubbock	\$1,012,000	\$1,042,000	\$1,016,000	\$1,082,000	\$1,163,000	\$5,315,000
Mc Allen	\$616,000	\$618,000	\$618,000	\$639,000	\$689,000	\$3,180,000
Odessa	\$417,000	\$404,000	\$394,000	\$415,000	\$447,000	\$2,077,000
Pasadena	\$537,000	\$554,000	\$541,000	\$572,000	\$618,000	\$2,822,000
Port Arthur	\$481,000	\$454,000	\$443,000	\$471,000	\$509,000	\$2,358,000
San Angelo	\$431,000	\$432,000	\$422,000	\$448,000	\$482,000	\$2,215,000
San Antonio	\$6,287,000	\$6,247,000	\$6,247,000	\$6,565,000	\$7,066,000	\$32,412,000
Tarrant County	\$1,099,000	\$1,100,000	\$962,000	\$1,011,000	\$1,087,000	\$5,259,000
Tyler	\$492,000	\$495,000	\$486,000	\$520,000	\$561,000	\$2,554,000
Waco	\$862,000	\$858,000	\$838,000	\$897,000	\$967,000	\$4,422,000
Wichita Falls	\$448,800	\$426,700	\$492,000	\$520,000	\$561,000	\$2,448,500
Texas Department of Housing and Community Affairs	\$33,303,000	\$33,001,000	\$32,007,000	\$34,987,000	\$37,060,000	\$170,358,000
Total HUD Awards	\$86,996,800	\$88,253,868	\$86,233,000	\$92,267,000	\$99,630,000	\$453,380,668

Source: U. S. Department of Housing and Urban Development

Management's Response



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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December 6, 2000

Mr. Larry F. Alwin, CPA
State Auditor
Office of the State Auditor
Robert E. Johnson Building
1501 North Congress Avenue, Suite 4.224
Austin, Texas 78701

Dear Mr. Alwin:

The Texas Department of Housing and Community Affairs (the "Department") would like to thank Nicole Merridith-Marrero, her staff and management team for the courtesy extended during their recent review of the housing programs of the State administered by the Department. Please see the enclosed management's response to your findings and recommendations.

The results of the audit have identified several opportunities for the Department to improve its administration of the programs. The Department is in general agreement with recommendations, however, we believe that the overall conclusions should include crediting the Department with making significant progress in achieving the goals of the Department and of the State.

For example, the 2001 Consolidated Plan limits HOME awards to service areas outside of a participating jurisdiction (PJ) with the exception of the Specials Needs setaside and the setaside for Community Housing Development Organizations (CHDO). In those two situations, priority will still be given to service areas that fall outside of a PJ. The 2000 HOME funding cycle gave priority to non-Participating Jurisdictions and out of 79 awards, only 10 served Participating Jurisdictions. Additionally, to help serve the neediest areas of the State, in the 1995 through 2001 annual State of Texas Low Income Housing Plans, a description of the supply of affordable housing was given. While the information presented is aggregated as a statewide number, it is available at the county and city level (cities with a population over 10,000). This information is continually distributed to nonprofit and for profit organizations interested in developing affordable housing. Census data housing stock information, which is used as a basis for much of the Plan, was updated to add information for single family and multifamily housing starts since 1990 for the 2001 State Low Income Housing Plan. The Department has also recently taken

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several steps to improve on data limitations that make planning in a state the size and diversity of Texas a challenge. These steps have included the following:

- Undertaken a comprehensive Community Needs Survey to better assess local needs.
- Requested additional employees to continue needs assessment at the local level as well as act as affordable housing facilitators.
- Started discussions with an independent housing market research group on a pro bono basis, to develop a database, which, if successful, will take into account various economic factors including supply side and demand side needs. The resulting information will help the Department identify need for both single family and multifamily housing at the city level.

The Department is committed to continual improvement in serving the State's housing needs. I want to assure you that the Department is taking, and will continue to take, the corrective action necessary to address the issues identified by the audit in the most effective and efficient manner possible. We have recently hired Mr. David Burrell as the Department's Director of Housing Programs. Along with the Department Director of Housing Finance Programs, Ms. Pam Morris, I believe the Department now has a capable and experienced team managing the Department's three programs, which are the subject of this audit. I look forward to continue working with the Department's staff, Governing Board, oversight entities, and Legislature to achieve the housing goals and objectives of the State.

Sincerely,



Daisy Stiner, Executive Director

Enclosure: one (1)

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